MOODY'S INVESTORS SERVICE

CREDIT OPINION
26 November 2019

Update

Rate this Research

RATINGS

SpareBank 1 SR-Bank ASA

Domicile	Norway
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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SpareBank 1 SR-Bank ASA

Update to credit analysis

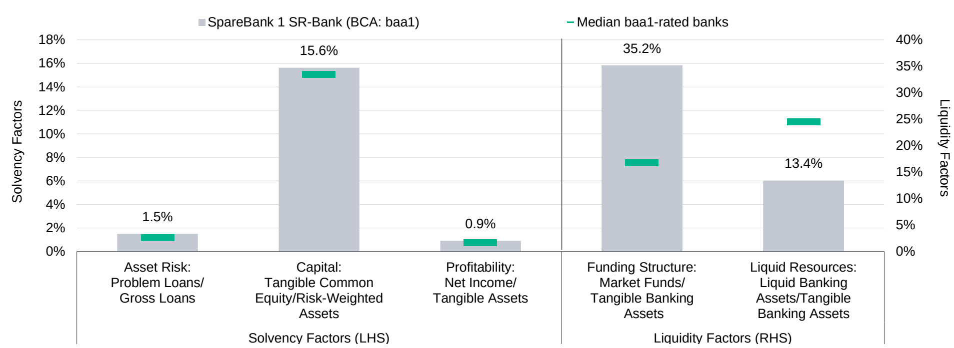
Summary

SpareBank 1 SR-Bank's long-term deposit and senior unsecured debt ratings of A1 take into account the bank's baseline credit assessment (BCA) of baa1, but also our forward-looking loss given failure (LGF) analysis which results in three notches of rating uplift from its BCA.

SpareBank 1 SR-Bank's BCA of baa1 primarily reflects the bank's solid regional market position, comfortable capital buffers (Common Equity Tier 1 capital ratio of 14.2% at end-September 2019), resilient pre-provision income combined with lower credit impairments, and also its robust liquidity position. These strengths are balanced against the bank's limited geographic reach, which results in some credit-risk concentrations in more volatile sectors, such as oil/offshore and commercial real estate. Nonetheless, the bank maintains a sound overall asset quality with stage 3 loans to gross loans ratio (including financial commitments and loans sold to SpareBank1 Boligkreditt and SpareBank 1 Næringskreditt) of around 1.5% at end-September 2019.

The bank's BCA also reflects the resilient performance of the bank in recent years despite some challenges in certain oil-related exposures, as well as Moody's forward-looking expectation that the bank's asset quality, profitability and capitalization will remain robust in the currently benign operating environment in Norway. Concurrently, the BCA considers the bank's relatively high dependence on market funding, and more specifically on covered bonds, a common feature among Norwegian banks that leaves them vulnerable to changes in investor sentiment.

Exhibit 1
Rating Scorecard - Key financial ratios



These are our Banks methodology scorecard ratios. Asset risk and profitability reflect the weaker of either the three-year average and latest annual figure. Capital is the latest reported figure. Funding structure and liquid resources reflect the latest fiscal year end figures.
Source: Moody's Financial Metrics

Credit strengths

» Sparebank 1 SR-Bank's BCA is supported by its Very Strong- Macro Profile

» A comfortable capital buffer provides protection from current and future credit losses

» Profitability supported by strong loan growth and lower credit losses

» A robust liquidity position which mitigates any market funding concerns

Credit challenges

» Exposures to the volatile oil-related and commercial real estate sectors pose risks to asset quality in a potential downturn

» Geographical concentration in certain regions elevates the bank's credit profile, although the bank aims to expand further in southern Norway

» Reliance on market funding renders the bank vulnerable to fluctuations in investor sentiment

Outlook

The outlook on SpareBank 1 SR-Bank's deposit and senior debt ratings is stable, balancing the bank's core earnings and loan growth against downside risks to its asset quality from its oil-related exposures and higher capital requirements.

Factors that could lead to an upgrade

Upward rating momentum could develop if SpareBank 1 SR-Bank shows: (1) improvements in its asset quality trends, especially in the more volatile segments such as oil/offshore and commercial real estate, with a problem loans ratio to be more in line with local peers; (2) continued good access to capital markets and strong liquidity on a sustainable basis; and/or (3) strong earnings generation without an increase in its risk profile.

Factors that could lead to a downgrade

Future downward rating pressure would emerge if (1) Sparebank 1 SR-Bank's problem loans ratio increases well above the average of its similarly-rated peers; (2) financing conditions become more difficult; (3) the bank's risk profile increases, for example as a result of increased exposures to more volatile sectors or if the quality of the oil-related portfolio deteriorates; (4) the macroeconomic environment weakens significantly, leading to a lower Macro Profile; (5) a reduction in the rating uplift as a result of our LGF analysis.

Key indicators

Exhibit 2
SpareBank 1 SR-Bank ASA (Consolidated Financials) [1]

	09-19[2]	12-18[2]	12-17[2]	12-16[2]	12-15[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	257.9	243.4	231.2	218.1	220.8	4.2[4]
Total Assets (USD Million)	28,382.6	28,103.8	28,266.4	25,338.0	24,940.3	3.5[4]
Tangible Common Equity (NOK Billion)	22.1	20.9	19.6	18.1	16.7	7.8[4]
Tangible Common Equity (USD Million)	2,435.7	2,411.3	2,396.3	2,108.2	1,885.6	7.1[4]
Problem Loans / Gross Loans (%)	1.5	1.5	1.1	1.2	0.8	1.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	15.6	16.0	16.3	15.6	14.0	15.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	13.8	13.3	10.1	11.4	8.0	11.3[5]
Net Interest Margin (%)	1.6	1.5	1.5	1.5	1.5	1.5[5]
PPI / Average RWA (%)	2.3	2.3	2.3	2.1	1.6	2.1[6]
Net Income / Tangible Assets (%)	1.1	0.8	0.9	0.7	0.7	0.9[5]
Cost / Income Ratio (%)	42.8	43.6	44.1	45.0	51.3	45.4[5]
Market Funds / Tangible Banking Assets (%)	36.4	35.2	36.4	38.1	40.6	37.3[5]
Liquid Banking Assets / Tangible Banking Assets (%)	13.8	13.4	14.9	12.4	10.8	13.1[5]
Gross Loans / Due to Customers (%)	205.4	203.8	196.2	212.2	205.6	204.6[5]

[1]All figures and ratios are adjusted using Moody's standard adjustments. [2]Basel III - fully-loaded or transitional phase-in; IFRS. [3]May include rounding differences due to scale of reported amounts. [4]Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5]Simple average of periods presented for the latest accounting regime. [6]Simple average of Basel III periods presented.
Source: Moody's Investors Service; Company Filings

Profile

SpareBank 1 SR-Bank is the leading financial group in southern and western Norway and the fifth-largest bank in Norway in terms of consolidated assets. The financial group provides a range of products and services, including traditional banking services such as loans, insurance and savings products, as well as securities trading, accounting services and estate agency services for retail as well as corporate customers. As of 30 September 2019, its adjusted consolidated total assets (including loans transferred to the covered bond companies of the SpareBank 1 Alliance) was around NOK258 billion (€26 billion).

Detailed credit considerations

SpareBank 1 SR-Bank's BCA is supported by its Very Strong- Macro Profile

SpareBank 1 SR-Bank's operating environment is purely domestic and its Macro Profile is thus aligned with that of Norway, at Very Strong-. Norwegian banks benefit from operating in a wealthy and developed country with very high economic, institutional and government financial strength as well as very low susceptibility to event risk. Norway has a diversified and growing economy, which demonstrated resilience to the past weakening in the oil sector. The main risks to the banking system stem from the high level of household indebtedness, elevated real estate prices and domestic banks' extensive use of market funding. However, these risks are mitigated by the strength of households' ability to service debt, banks' adequate capitalization and the relatively small size of the banking system compared with the total size of the economy.

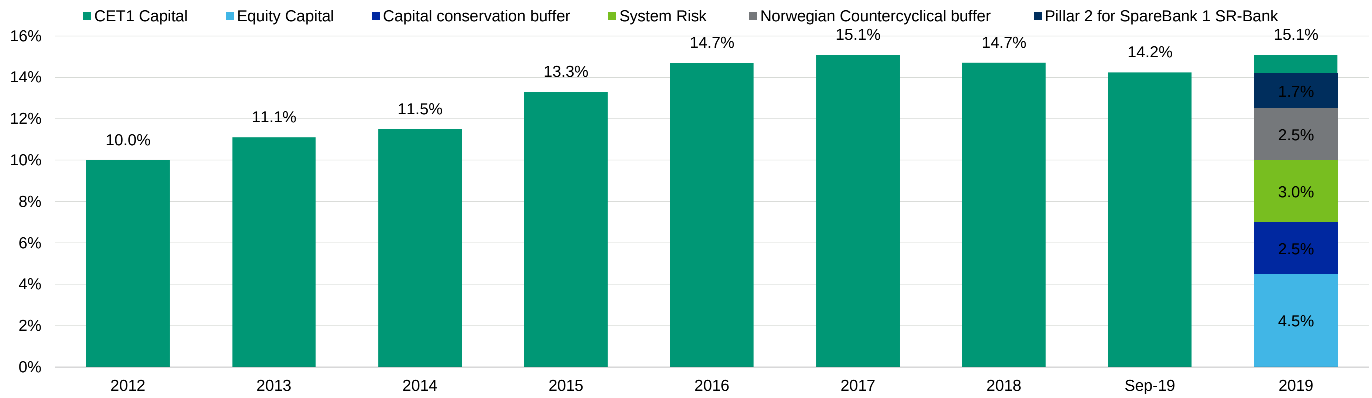
A comfortable capital buffer provides protection from current and future credit losses

SpareBank 1 SR-Bank's Common Equity Tier 1 (CET1) ratio was 14.2% at end-September 2019 down from 14.7% at end-December 2018 (see Exhibit 3), but above the regulatory requirement of 13.7%. The lower CET1 ratio is mainly attributed to the bank's accelerated growth in risk-weighted assets, especially in corporate lending, but also due to the increase in its stake in BN Bank ASA in Q2 2019 and the acquisition of Monner AS in Q3 2019.

We note that the FSA has assigned a revised Pillar 2 requirement of 1.7% to the bank applicable from 31 March 2019, from 2% previously. Accordingly, the bank's CET1 internal target was also revised to 14.6% for 2019, from 15% previously, indicating that the bank's CET1 ratio was 40 basis points below its internal target in September 2019. We also note that the countercyclical buffer will increase to 2.5% at the end of 2019, from 2% currently, which means that the bank will aim for a CET1 ratio of 15.1 % by the end of 2019.

SpareBank 1 SR-Bank has managed to accumulate capital through increased profitability in the last few years, through conservative growth and modest dividend payout (dividend policy of around 50% of annual profit). Consequently, we believe that the bank is well positioned and capitalised to continue developing its leading position in South-Western Norway, and expand further in the Oslo region based on its strategic direction.

Exhibit 3
SpareBank 1 SR-Bank CET1 development



Source: Company reports and presentations, Moody's Investors Service

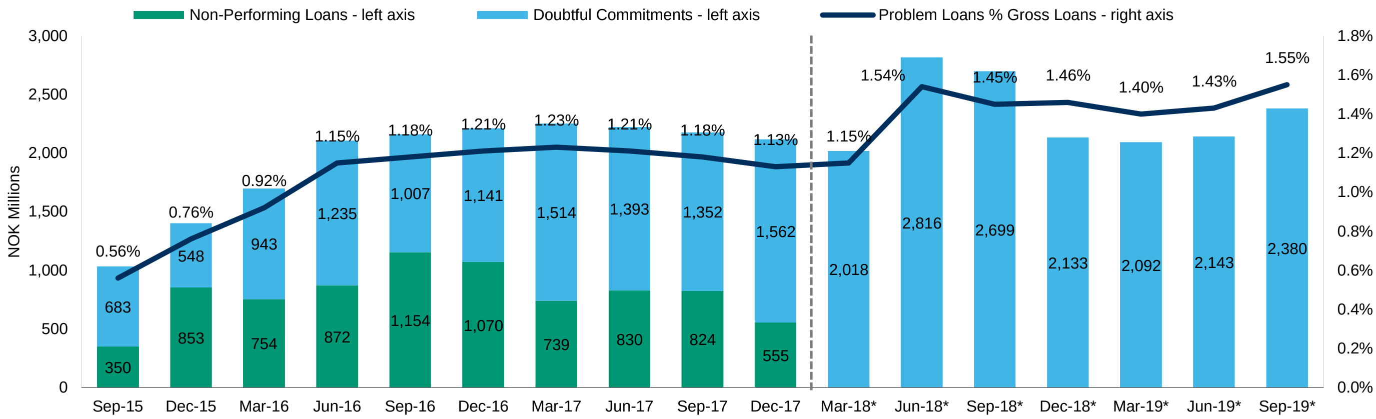
The bank's Tangible Common Equity (TCE) has also been supported by good earnings generation and retained earnings, while the bank's Tier 1 capital ratio was 15.6% and the total capital adequacy ratio was 17.3% at end-September 2019. Moreover, the bank's leverage ratio was satisfactory at 7.5% at end-September 2019, down from 7.7% a year earlier, but significantly higher than both international and Norwegian requirements. Such capital metrics compare favourably with other Nordic banks, as the transitional rules in Norway envisage that the minimum requirement for capital adequacy cannot amount to less than 80% of the corresponding amount calculated according to the Basel I rules.

However, we expect that this Basel I floor will likely be removed in Norway by the end of 2019, combined with an introduction of a discount for SME exposures based on EU's CRD IV directive, for which the bank estimates will have a positive effect of around 200 basis points on its CET1 ratio. This will be counterbalanced by the Ministry of Finance's proposal to concurrently impose an increase in the systemic risk buffer to 4.5% from 3% to all IRB-based banks, which will increase the bank's potential requirement to 16.6% (including 0.9% management buffer) by year-end 2019. The bank expects to meet this through the accumulation of additional capital in Q4 2019 and the reduction in RWAs from its lower stake in SpareBank 1 Boligkreditt.

Exposures to the volatile oil-related and commercial real estate sectors pose risks to asset quality in a potential downturn,...

We consider the SpareBank 1 SR-Bank's asset quality to be satisfactory, despite some deterioration in 2018-19 (see Exhibit 4) mainly due to the implementation of IFRS 9 in Norway and some challenges in the off-shore industry. Reported problem loans (or stage 3 loans classified under IFRS 9) accounted for 1.55% of gross loans (including covered bond loans sold to SpareBank1 Boligkreditt and SpareBank 1 Næringskreditt) at end-September 2019, up from 1.46% end-December 2018. We note that the bulk of the bank's loan losses are largely affected by its exposure/commitments to the offshore/oil and gas sector. The Norwegian Petroleum Directorate expects an increase of 10% in oil investments in 2019 up from around 2% in 2018, which drives the improved economic activity in the region and could potentially further reduce the bank's asset risk.

Exhibit 4
SpareBank 1 SR-Bank's problem loans



*Note: 2018 onwards numbers are Stage 3 gross loans under IFRS 9, while previous years are under IAS 39.
Source: Company reports and presentations, Moody's Investors Service

SpareBank 1 SR-Bank is one of Norwegian banks with a relatively high exposure to the oil & gas and shipping sectors, with related exposures (including oil services, oil and gas, and offshore shipping) at end-September 2019 comprising in total around 4.7% of its total gross loan book (including covered bond loans sold to SpareBank1 Boligkreditt and SpareBank 1 Næringskreditt). However, the increased activity in the oil sector is likely to contain the potential credit losses, although we note that the bulk of the accumulated credit losses so far are linked to such exposures mainly due to oversupply of older offshore service vessels (OSVs).

...while geographical concentration in certain regions elevates the bank's credit profile, although the bank aims to expand further in Southern Norway

In addition, the bank is also exposed to the commercial real estate sector (around 15.8% of gross loans at end-September 2019, including covered bond loans sold to SpareBank1 Boligkreditt and SpareBank 1 Næringskreditt), a significant part of which is located in the county of Rogaland, where vacancy rates are vulnerable to oil prices and investments. This exposure combined with its sizeable mortgage loan book (around 60.5% of total gross loans in September 2019), could leave the bank vulnerable to any unexpected material decrease in property prices, a feature shared with other Norwegian savings banks. However, we note that over 89% of the bank's mortgage exposures have a loan-to-value (LTV) ratio of lower than 85%, which means that the bank can withstand certain decline house prices before its credit profile is impacted.

Our assigned Asset Risk Score reflects the challenges the bank could face in a possible distress in the oil-sector (similar to the one that unfolded in 2015-2016), taking into account the bank's relatively limited geographical diversification, certain concentration to vulnerable sectors, but also certain sizeable restructured loans in the offshore shipping industry that could bring about additional impairments. That said, we view positively the bank's Southern Norway expansion strategy, aimed predominantly at corporate clients and demonstrated by opening up a branch on Oslo in 2018, which will gradually improve its regional and sectoral diversification. We note that the bank's exposure to the Oslo and Akershus region has increased by more than 81% from September 2017 to September 2019, comprising around 7.6% of its total loans.

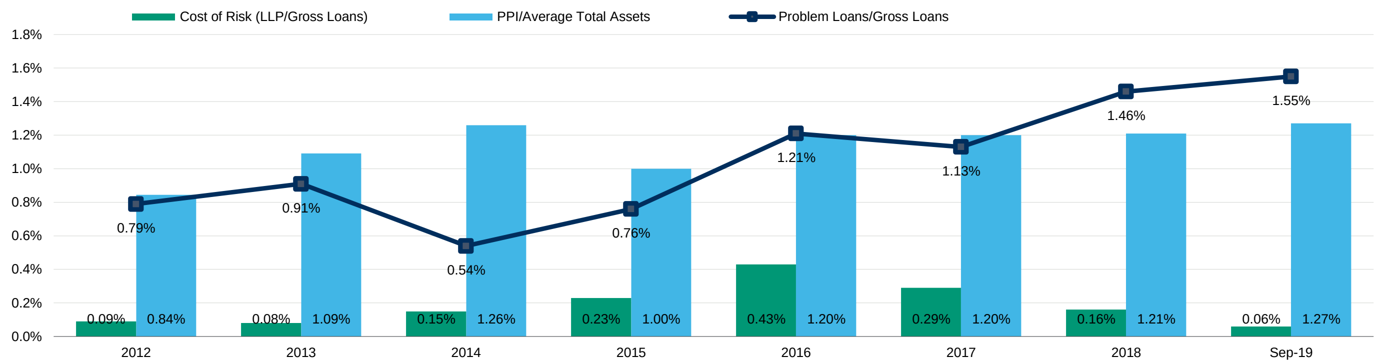
Profitability supported by strong loan growth and lower credit losses

SpareBank 1 SR-Bank's profitability in 2019 was supported by increased net interest income (16% higher in the first nine months ending in September 2019 compared to the same period year earlier) on the back of loan growth of so far around 4.2% during 2019 (including covered bond loans sold to SpareBank1 Boligkreditt and SpareBank 1 Næringskreditt), good cost efficiency, and lower loan losses. This, together with the impact of the merger between SpareBank 1 Skadeforsikring AS and DNB Forsikring AS, which resulted in NOK460 million income, has contributed in an increase in the bank's net profit by approximately 22% for the first nine months compared to year before, with a reported return on equity (RoE) of 16%. Excluding the merger impact and one-off gains the return on equity was 12.3% as at end-September 2019, above the bank's target of 11.5% for 2019 and long-term target of 12%.

The bank's loan losses decreased significantly in the first nine months of 2019 to NOK96 million compared to NOK232 million a year earlier, reflecting the increasing optimism in the bank's home region due to higher oil prices, but also due to an impairment reversal of NOK92 million following a legal case won by the bank. Accordingly, the bank's credit loss ratio declined to 0.06% in the first nine months of 2019 from 0.16% in 2018, despite the adoption of IFRS 9 with more conservative principles for write-downs from January 2018 onwards. We expect the bank's loan loss provisions to remain moderate and manageable for the bank in 2019, despite the uptick in stage 3 loans.

Exhibit 5

SpareBank 1 SR-Bank's Cost of Risk and PPI evolution



Source: Company reports and presentations, Moody's Investors Service

The bank's net interest margin (NIM) was marginally higher at 1.58% in the first nine months of 2019 from 1.46% an year-earlier as interest rates increased in Norway, while net commission income declined by 3.5% during in the first nine months of 2019 due to lower commissions from the SpareBank 1 covered bond entities that the bank now uses less than in the past.

SR-Bank's cost efficiency remained favorable with one of the lowest cost-to-income ratios (39% in the first nine months of 2019 excluding the one-off gain from the insurance company merger) among the large Norwegian Savings Banks, despite the almost 9% year-on-year growth in operating expenses as of September 2019. We note that the bank has ambitious plans in new technology and development in order to improve its product offering and customer experience, which to some degree exerts upward pressure on its IT-related expenses that are the second highest cost item after staff expenses.

Looking ahead, we expect the bank's pre-provision earnings to remain resilient in the next 12-18 months in view of the expected continued gowth in the Norwegian economy in 2019-20 that will support consumer consumption and increased business investments. We expect the bank to be able to meet its normalised RoE target of 11.5% for 2019, in anticipation of also higher interest rates in 2019 that will support the bank's NIM. Nonetheless, our Profitability Score for SpareBank 1 SR-Bank reflects our view that the bank's oil-related exposure and restructured loans will continue to pose downside risks to the bank's bottom line, potentially causing some volatility to its profit matrics.

Reliance on market funding renders it vulnerable to fluctuations in investor sentiment...

While SpareBank 1 SR-Bank benefits from solid access to domestic and international capital markets, with a stronger footing than its local peers, providing a good funding diversification, its reliance on wholesale funding remains high. Market funds accounted for around 36% of tangible banking assets (including covered bond loans sold to SpareBank1 Boligkreditt and SpareBank 1 Næringskreditt) at end-September 2019 (ratio we use in our scorecard), which we believe renders the bank susceptible to potential shifts in investor sentiment.

SpareBank 1 SR-Bank also benefits from a good deposit base, which represented around 43% of total liabilities (including covered bonds issued through SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt) at end-September 2019, which has proven to be resilient and stable over many years. Deposits from customers increased by around 1.9% year-on-year as of September 2019. The bank's gross loans-to-deposits ratio, including transferred loans, was relatively high at around 205% at end-September 2019.

According to our methodology, we reflect the relative stability of covered bonds compared to unsecured market funding through a standard adjustment in our scorecard. Covered bonds have become an increasingly important source of funding for the bank, which issues covered bonds through the wholly owned covered bond company SR-Boligkreditt AS and specialised companies owned jointly with other members of the SpareBank 1 Alliance. Funding through the jointly owned covered bond companies SpareBank 1 Boligkreditt (residential mortgages) and SpareBank 1 Næringskreditt (commercial mortgages) is carried out off-balance-sheet, since the bank does not consolidate these entities.

As of September 2019, the bank had transferred around NOK 6.3 billion to Sparebank 1 Boligkreditt and SpareBank 1 Næringskreditt, or around 3% of gross loans including transferred loans, reducing significantly in the last couple of years. In the second quarter of 2015 the bank set up SR-Boligkreditt as a wholly owned covered bond company, to diversify and optimise its funding by gradually shifting its cover bond activity to this entity instead. While we view positively the diversification benefit of covered bond funding, extensive use of covered bond funding increases the amount of pledged assets unavailable for unsecured bondholders, including depositors in liquidation.

Our Funding Structure Score reflects our view that although SpareBank 1 SR-Bank has benefitted from strong access to domestic and international capital markets, its high reliance on market funding - a common feature of Nordic banks - is a material source of risk. We believe that in times of market stress, market funding can become more expensive and/or restricted.

...although a robust liquidity position mitigates any market funding concerns

A mitigating factor to the bank's reliance on market funds is its robust liquidity buffer, which stood at NOK33.6 billion or around 13% of total assets at end-September 2019 consisting mainly of cash, short-term repos, and covered bonds. This liquidity buffer could cover the bank's normal operations for at least 23 months, in the event of closed markets that would not allow the bank to refinance its maturing debt. In addition to the liquidity buffer, the bank has NOK13.3 billion in home mortgages ready to be transferred to a covered bond company, while it reported a commendable liquidity coverage ratio (LCR) of 153% at end-September 2019, combined with a net stable funding ratio (NSFR) of 115%.

It should be noted that our assigned Liquid Resources Score for the bank no longer incorporates a positive adjustment to reflect liquid assets held by the jointly-owned SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, given the increasingly lower proportion of covered bonds channeled to these entities. The bank has now the bulk of its covered bonds carried out from its own covered bond entities, which are consolidated in its group financial statements, and accordingly reflected in our reported liquidity ratios.

Environmental, social and governance considerations

In line with our general view of the banking sector, Sparebank 1 SR-Bank's has relatively low exposure to Environmental risks and moderate exposure to Social risks. See our Environmental and Social risk heatmaps for further information.

SR-Bank's exposure to oil and off-shore sector is a source of environmental risk for the bank, in the face of eventual transition to a low-carbon economy. However, the bank's oil-related exposure, although higher than local peers, is considered manageable at 4.7% of gross lending (including covered bond entities) as of September 2019. Furthermore, Norway, similar to other countries in the European Union, has policies in place that ensure new housing constructed is energy-efficient, which enables banks to gather mortgages for asset pools for green bond issuances. Such policies also help limit environmental risks for Norwegian banks that have large mortgage lending portfolios. SpareBank 1 SR-Bank issued a green covered bond of €500 million in October 2019 maturing in seven years through SR-Boligkreditt, indicating the bank's appetite for sustainable banking.

The most relevant Social risks for banks arise when they interact with their customers. Social risks are particularly high in the area of data security and customer privacy which is partly mitigated by sizeable technology investments. Fines and reputational damage due to product misselling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services, increasing information technology cost, aging population concerns in several countries, impacting demand for financial services or socially driven policy agendas that may translate into regulation that affects banks' revenue base. Overall, we consider Norwegian banks, including Sparebank 1 SR-Bank, to face moderate social risks.

Governance is highly relevant for Sparebank 1 SR-Bank, as it is to all players in the banking industry. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Corporate governance remains a key credit consideration and requires ongoing monitoring. However, we currently do not have any governance related concerns over SpareBank 1 SR-Bank.

Support and structural considerations

Loss Given Failure analysis

The EU Bank Recovery and Resolution Directive (BRRD) has entered into force as of 1 January 2019 in Norway, which confirms our current assumptions regarding LGF analysis. For our resolution analysis, we assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits, a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. These are in line with our standard assumptions.

For SpareBank 1 SR-Bank's long-term deposit rating and senior unsecured debt rating, our LGF analysis considers the combination of the bank's junior deposits, its outstanding debt volume and the amount of debt subordinated to this. The assigned LGF notchings for long-term deposit and senior unsecured bank debt are positioned one notch higher than the correspondent LGF notching guidance (two notches above the adjusted BCA). This reflects our expectation that the bank will issue non-preferred senior debt in order to comply with its MREL requirement.

Moody's expects that the bank will issue MREL-eligible non-preferred senior (NPS) debt over the coming 2-3 years, estimated at around NOK20 billion. This has resulted in a Preliminary Rating Assessment (PRA) of three notches above the BCA, reflecting very low loss-given-failure. For junior securities issued by SpareBank 1 SR-Bank, our LGF analysis confirms a high level loss-given-failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity.

Government support considerations

SpareBank 1 SR-Bank has a sound franchise in the county of Rogaland, south-west Norway, with a 35% market share. The bank has also expanded into neighbouring counties, but its national market share in lending is around 4-5%. As a result of the implementation of the BRRD legal framework in Norway from 1 January 2019, which is aligned with that of the EU, we revised our government support assumption for the bank's senior preferred debt and deposits to low from moderate. This has resulted in no rating uplift from its PRA, positioning the ratings at A1.

For the bank's junior securities, we continue to consider that potential government support is also low with no rating uplift. Junior securities also include additional downward notching from the BCA reflecting coupon suspension risk ahead of a potential failure.

Counterparty Risk Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

SpareBank 1 SR's CR Assessment is positioned at A1(cr)/Prime-1(cr)

SpareBank 1 SR-Bank's CR Assessment is positioned at A1(cr)/Prime-1(cr), three notches above the bank's adjusted BCA of baa1, based on the substantial cushion against default provided to the senior obligations represented by the CRA by subordinated instruments. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CRA captures the probability of default on certain senior obligations, rather than expected loss, therefore we focus purely on subordination and take no account of the volume of the instrument class.

Counterparty Risk Ratings (CRR)

Counterparty Risk Ratings are opinions of the ability of entities to honour the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

SpareBank 1 SR-Bank's CRR is positioned at A1/Prime-1

The CRR is positioned three notches above the adjusted BCA of baa1, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities.

Foreign currency debt rating

SpareBank 1 SR-Bank's foreign-currency debt rating of A1 is unconstrained given that Norway has a country ceiling of Aaa.

About Moody's bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our rating committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 6

SpareBank 1 SR-Bank ASA

Macro Factors							
Weighted Macro Profile	**Very Strong -**	**100%**					

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.5%	aa3	←→	a3	Geographical concentration	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	15.6%	aa2	←→	aa2		
Profitability						
Net Income / Tangible Assets	0.9%	baa1	←→	baa2	Earnings quality	
Combined Solvency Score		a1		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	35.2%	ba2	←→	ba2	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	13.4%	baa3	←→	baa3	Quality of liquid assets	Stock of liquid assets
Combined Liquidity Score		ba1		ba1		
Financial Profile				baa1		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				a3 - baa2		
Assigned BCA				baa1		
Affiliate Support notching				0		
Adjusted BCA				baa1		

Balance Sheet	**in-scope (NOK Million)**	**% in-scope**	**at-failure (NOK Million)**	**% at-failure**
Other liabilities	92,023	35.7%	102,446	39.8%
Deposits	102,181	39.7%	91,759	35.6%
Preferred deposits	75,614	29.4%	71,833	27.9%
Junior deposits	26,567	10.3%	19,925	7.7%
Senior unsecured bank debt	51,744	20.1%	51,744	20.1%
Dated subordinated bank debt	2,121	0.8%	2,121	0.8%
Preference shares (bank)	1,821	0.7%	1,821	0.7%
Equity	7,729	3.0%	7,729	3.0%
Total Tangible Banking Assets	257,619	100.0%	257,619	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	32.4%	32.4%	32.4%	32.4%	3	3	3	3	0	a1
Counterparty Risk Assessment	32.4%	32.4%	32.4%	32.4%	3	3	3	3	0	a1 (cr)
Deposits	32.4%	4.5%	32.4%	24.6%	2	3	2	3	0	a1
Senior unsecured bank debt	32.4%	4.5%	24.6%	4.5%	2	2	2	3	0	a1
Dated subordinated bank debt	4.5%	3.7%	4.5%	3.7%	-1	-1	-1	-1	0	baa2
Junior subordinated bank debt	3.7%	3.7%	3.7%	3.7%	-1	-1	-1	-1	-1	baa3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	3	0	a1	0	A1	A1
Senior unsecured bank debt	3	0	a1	0	A1	A1
Dated subordinated bank debt	-1	0	baa2	0		Baa2 (hyb)
Junior subordinated bank debt	-1	-1	baa3	0		(P)Baa3

[1]Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
SPAREBANK 1 SR-BANK ASA	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A1
Senior Unsecured	A1
Subordinate	Baa2 (hyb)
Jr Subordinate MTN	(P)Baa3

Source: Moody's Investors Service

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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